



1-7-1992

## Address

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### Recommended Citation

Singh, Dr Manmohan (1992) "Address," *National Law School Journal*: Vol. 4: Iss. 1, Article 2.  
Available at: <https://repository.nls.ac.in/nlsj/vol4/iss1/2>

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## Dr. Manmohan Singh\*

...We are in the process of making far reaching changes in the economic governance of our country as we seek to make our economy an internationally competitive economy. We are sailing into uncharted waters and we shall rely on our judicial system to keep us on the straight and narrow course of justice. At the same time, our own ways have become unsustainable and new laws and interpretations can no longer be avoided. New national and international forces are shaping our policies and our perceptions and their recognition by our judicial system would make our task much easier. In this process of shaping common perceptions and common awareness we shall be looking to you, Hon'ble Chief Justice, for leadership. I am also delighted to find myself amongst the leading legal lights of our country. I read many of your names in the newspapers and I also read about the finesse with which you defeat the designs of the government. So I stand in considerable awe of you but it is a pleasant experience for me that at close sights you are not so formidable but in fact, extremely nice and warmhearted people committed to the pursuit of common national goals and objectives.

The relationship between economics and law is a complex one. Law, even if it does not embody eternal varieties, does involve the application of eternal principles of justice. Economics deals with constant change not only in circumstances but also in idea about what is right and what is wrong in policy formulations. We have found a constantly moving equilibrium between the economics and law. At the moment, for instance, we are involved in the Uruguay Round negotiations which involve the evaluation of new trade laws. We want our industry to orient itself outward and as it does so it will have to adopt international standards and practices. These changes will have to be embodied in our laws. I trust that these necessities are as evident to you as they are becoming to us in the government. I understand that this Seminar is being attended by a large number of participants from overseas. I hope they will spend some time in India on this visit and give themselves a chance to experience its charms. India looks much better than its image international media often convey. I hope they will discover this for themselves. I shall leave it to them to look out for the beautiful sights which are in plentiful supply in our country.

Today I wish to talk to you about the invisible face of India, namely, the changing Indian economy. In the midst of our domestic pre-occupations we often forget that there are not many countries in the world like ours. The only country that compares in population and size to ours is our great northern neighbour, China. Farther away there are Brazil and the U.S. There is a super state in the making in Europe and from the ashes of the Soviet Union a mighty Russia is likely to arise. Differ from one another as these countries do, they are enormously more different from their small neighbours. For better or worse we are circumscribed by our national frontiers. These limits are broader.

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\* *The Union Minister for Finance, India.*

Less constraining as in large countries. We can travel longer distances, take jobs in far off places, sell goods many miles away and marry spouses of very different backgrounds. I think we Indians consciously or unconsciously value this broader dimension of our national personality. I am quite irrationally happy about the fact that I can travel in train for 2 days and nights without leaving my country. This large size is not a national achievement but a promise, the promise of economic opportunities. Large countries produce a large variety of goods on a larger scale, their domestic market offer scope for more diversity. They can afford more specialists. Large areas make for synergy and they are less affected by international instability. These advantages of size are enjoyed by India and they are ours irrespective of what the government does or does not. They are permanent advantages available to our industrialists and investors. This is how India figures among the world's largest producers of such diverse goods as sugar, textiles, scooters trucks and .... In the coming years it will become a major producer of an even greater variety of goods and services. Each of these goods and services offers a potential for rapid expansion. Although there are better endowed countries, India is not devoid of natural resources. Stretching from 8° to 35° of the Equator, India enjoys a variety of tropical and sub-tropical climate. In its river plains it has some of the world's largest and most fertile agricultural areas. We have considerable resources of iron ore, coal, bauxite and hydroelectricity. There is a substantial industrial resource-base on which further development can be based. The market and the resources furnish opportunities for profitable investment, opportunities which Indian industrialists have exploited with success. We believe some of our leading corporations have reached the world class in size and management and we hope soon to put this to test by letting them be listed on the leading stock exchanges in the world. We are also exploring other options to expose them to the global business environment. Equally, enterprises from overseas are now welcome to test the waters of our substantial domestic market. We have considerably liberalised the conditions of their entry and expect to sort out some more of these problems by amending the Foreign Exchange Regulation Act.

It is not in our policy to exclude overseas investors. Even in the days of rigorous application of Foreign Exchange Regulation Act, there were areas and industries where majority equity holdings upto 74 percent were allowed. But the Government was then intent on increasing Indian participation in investment management. The government's efforts led to a policy regime that was often complex and non transparent and it put off foreign investors. To reassure them we have recently made radical policy changes. Thus in a large range of industries we now allow automatic entry of enterprise with a foreign majority holding; two by setting up the Foreign Investment Promotion Board we had set up a machinery for approving other investment proposals that is quick, hassle-free and non complicated. We have also removed clearance requirements in respect of Monopoly and Restrictive Practices which hitherto applied to enterprises with foreign majority investment among others. Thus we have gone a considerable way towards levelling the playing field between foreign and Indian enterprise. We are in the process of finding out what other obstacles are perceived by foreign investors and we seek to remove them. In the next few

months we hope to remove them substantially. Once we do so the perceptions of foreign investors about the investment climate in India will begin to coincide with those of our own industrialists. Here we are trying to change the view of both on investment opportunities. Our industry was built up in the last 40 years behind the wall of substantial protection against foreign competition. This was necessary in the early years. But it has become counter productive now. Our Corporations have become inward looking and have neglected opportunities of trade and investment abroad. We no longer believe that this is the fault of motivation. Industry, whether Indian or foreign, is attracted by profit opportunities and at the the cost levels built up behind protection foreign markets were simply not profitable for Indian industry. We have taken a number of steps to remedy this. We adjusted the exchange value of the rupee in July to bring down the cost of exports. We introduced an instrument, EXIM scrips, by which exporters are now assured of automatic hassle-free access to imported inputs. We abolished export subsidies. This measure may seem unfriendly to exporters at a first glance, but our exporters' profit expectations had come to be too dependent on the subsidies. Besides, the largest subsidies went to the least competitive exports. By abolishing export subsidies we focussed the exporters attention on the profitability of foreign markets rather than on Government subsidies and we cut out the red tape involved in handing out these subsidies. Our objective is an international competitive economy which at the same time is fully conscious of its obligations to the deprived sections of our society. In pursuit of these objectives we have ambitious plans for restructuring our financial system, tax structure and exchange controls. It is our intention to work towards the removal of most of the exchange controls so that the rupee can be made convertible in a reasonable period of time. And finally we are engaged in an attempt to control inflation which in recent years has been running at an unreasonably high rate. The prices were rising very fast till last August and this fact continues to be reflected in the annual rate of inflation. But since then the index has been rising much fast. I am confident that the annual rate of inflation will continue to fall in the coming months. Although we are keeping our fingers crossed on this, controlling inflation is today our highest priority. The inflation, the restrictive policy we have followed to control inflation and the import compression well have enforced to improve the balance of payments have together brought considerable pressure on industrial profits and have depressed business expectation. This must adversely influence the investment plans of both domestic and foreign investors in the short run. We are deeply conscious of the deflationary effect of our current policies and plan to relax them as soon as we have inflation and the balance of payments under control. This process has already begun. With luck we hope by mid-summer to create an economic environment which will be highly attractive to new investors. There are parts of the economic environments about which both Indian and foreign industrialists have expressed concern. An outstanding instance is the law of governing redeployment of surplus workers and exit of inefficient firms. We have now evolved a mechanism for dealing with these problems in the Board for Industrial and Financial Reconstruction and we are taking steps to make this process more effective. We seek to devise credible social safety nets so as to ensure that the cost of adjustments to a more dynamic economy are equitably distributed.

We are also engaged in discussion with industry and labour on these issues to evolve a broad national consensus. Through these negotiations we are working towards greater flexibility in industries, use of work force and surer and more adequate compensation of workers in the event of unavoidable redeployment. Our law courts have played an active role in shaping our labour laws as they stand today. I am sure they will also be involved in redefining the law to suit the changing needs of time...